

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Mancelona Area Water and Sewer Authority</b>	County <b>Antrim</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>5/17/05</b>	Date Accountant Report Submitted to State: <b>6/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>J L Stephan Co, PC</b>			
Street Address <b>862 E. Eighth St.</b>		City <b>Traverse City</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49686</b>	Date <b>6/30/05</b>

**Mancelona Area Water and Sewer Authority**  
*Antrim County Michigan*

*Audited Financial Statements*  
and Supplemental Information

*For the Year Ended December 31, 2004*

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FINANCIAL SECTION



# J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty Szasz, CPA  
David Skibowski, Jr., CPA

## INDEPENDENT AUDITOR'S REPORT

Mancelona Area Water and Sewer Authority  
PO Box 940  
Mancelona, MI 49659

We have audited the accompanying financial statements of the governmental activities of the Mancelona Area Water and Sewer Authority as of and for the year ended December 31, 2004 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Authority as of December 31, 2004 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by provisions of *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2002. The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

May 17, 2005

**Manacelona Area Water and Sewer Authority***Exhibit A*

*Government Wide  
Statement of Net Assets  
December 31, 2004*

	<i>Governmental Activities</i>	<i>Business Type Activities</i>	<i>Total</i>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 128,929	\$ 256,531	\$ 385,460
Investments	-	-	-
Accounts Receivable	-	76,192	76,192
Due From Others	-	340	340
Special Assessment Receivable - Principle	2,493,207	-	2,493,207
Special Assessment Receivable - Interest	121,544	-	121,544
Capital Assets	-	8,565,856	8,565,856
<b>Total Assets</b>	<u>2,743,680</u>	<u>8,898,919</u>	<u>11,642,599</u>
<b>Liabilities</b>			
Accounts Payable	-	156,605	156,605
Accrued and Other Liabilities	101	267	368
Deferred Revenue	2,354,694	-	2,354,694
Non-Current Liabilities			-
Due within one year	110,000	5,176	115,176
Due within more than one year	2,455,000	16,342	2,471,342
<b>Total Liabilities</b>	<u>4,919,795</u>	<u>178,390</u>	<u>5,098,185</u>
<b>Net Assets</b>			
Invested in Capital Assets - net of related debt	-	8,565,856	8,565,856
Restricted			-
Capital Projects	-	132,686	132,686
Escrow Payments	-	267	267
Debt Service	388,885	-	388,885
Unrestricted	<u>(2,565,000)</u>	<u>21,720</u>	<u>(2,543,280)</u>
<b>Total Net Assets</b>	<u><u>\$(2,176,115)</u></u>	<u><u>\$ 8,720,529</u></u>	<u><u>\$ 6,544,414</u></u>

*The Notes to Financial Statements are an integral part of this statement*

# Mancelona Area Water and Sewer Authority

Exhibit B

## Government Wide

### Statement of Activities

For the Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government							
General Government	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Public Safety	-	-	-	-	-		-
Public Works	35,817	-	-	-	(35,817)		(35,817)
Health and Welfare	-	-	-	-	-		-
Community and Economic Development	-	-	-	-	-		-
Recreation and Culture	-	-	-	-	-		-
Other Functions	-	-	-	-	-		-
Interest on Long-Term Debt	33,564	-	-	-	(33,564)		(33,564)
Total Governmental Activities	69,381	-	-	-	(69,381)		(69,381)
Business-Type Activities							
Water System	870,293	563,479	-	335,053	-	\$ 28,239	28,239
Total Primary Government	\$ 939,674	\$ 563,479	\$ -	\$ 335,053	(69,381)	28,239	(41,142)
General Revenues							
Property Taxes					-	-	-
Interest					1,036	-	1,036
Refunds					-	-	-
Special Assessment					259,670	-	259,670
Miscellaneous					-	-	-
Net Transfers In/(Out)					-	-	-
Total General Revenues and Transfers					260,706	-	260,706
Change in Net Assets					191,325	28,239	219,564
Net Assets - Beginning					(2,367,440)	8,692,290	6,324,850
Net Assets - Ending					\$ (2,176,115)	\$ 8,720,529	\$ 6,544,414

The Notes to Financial Statements are an integral part of this statement

**Manacelona Area Water and Sewer Authority***Exhibit C**Governmental Fund**Balance Sheet**December 31, 2004*

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	<i>Debt Service Fund</i>
<b>Assets</b>	
Cash - Unrestricted	\$ 128,929
Special Assessment Receivable - Principle	2,493,207
Special Assessment Receivable - Interest	121,544
Due from Other Funds	-
Due from Others	-
	<hr/>
<i>Total Assets</i>	<u>2,743,680</u>
<b>Liabilities</b>	
Due to Other Funds	101
Deferred Revenue	2,354,694
	<hr/>
<i>Total Liabilities</i>	<u>2,354,795</u>
<b>Fund Balances</b>	
Fund Balances - Unreserved	388,885
	<hr/>
<i>Total Fund Balances</i>	<u>388,885</u>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Some Liabilities, including Bonds Payable, are not due and payable in the current period and therefore are not reported in the fund.	<u>(2,565,000)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$(2,176,115)</u></u>

*The Notes to Financial Statements are an integral part of this statement*



**Manceolona Area Water and Sewer Authority***Exhibit D*

*Governmental Fund  
Statement of Revenue, Expenditures  
and Changes on Fund Balance  
For the Year Ended December 31, 2004*

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	<i>Debt Service Fund</i>
<i>Revenues</i>	
Special Assessment	\$ 259,670
Interest Earned	<u>1,036</u>
<i>Total Revenues</i>	260,706
<i>Expenditures</i>	
Contract Services	1,572
Bond Fees	26,370
Dues & Fees	7,752
Printing & Publishing	123
Principal	105,000
Interest	<u>33,564</u>
<i>Total Expenditures</i>	<u>174,381</u>
<i>Excess Revenues Over (Under) Expenditures</i>	86,325
<i>Other Financing Sources (Uses)</i>	
Operating Transfers In	-
Operating Transfers (Out)	<u>-</u>
<i>Total Other Financing Sources (Uses)</i>	<u>-</u>
<i>Excess Revenues (Expenditures) and Other Sources (Uses)</i>	86,325
<i>Fund Balance -</i>	
Beginning of Year	<u>302,560</u>
End of Year	<u><u>\$ 388,885</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit E*

*Reconciliation of the Statement of Revenue, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended December 31, 2004*

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Change in Fund Balance - Total Governmental Funds (Exhibit D) \$ 86,325

Amounts reported for governmental activities in the statement of  
activities (Exhibit B) are different because:

Payment of Long-Term Debt 105,000

*Change in net assets of governmental activities (Exhibit B)* \$ 191,325

**Mancelona Area Water and Sewer Authority***Exhibit F*

*Proprietary Fund  
Statement of Net Assets  
December 31, 2004*

	<u>Water System</u>
<b>Assets</b>	
<i>Current Assets</i>	
Cash-Unrestricted	\$ 123,578
Due from County	239
Due from Other Funds	101
Accounts Receivable	<u>76,192</u>
<i>Total Current Assets</i>	200,110
<i>Non-current Assets</i>	
Cash-Restricted	132,953
Capital Assets - net	<u>8,565,856</u>
<i>Total Non-current Assets</i>	<u>8,698,809</u>
<i>Total Assets</i>	<u>8,898,919</u>
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	156,605
Current Portion of Capital Lease	5,176
Escrow Payable	<u>267</u>
<i>Total Current Liabilities</i>	162,048
<i>Long-Term Liabilities</i>	
Capital Lease Payable - Truck	21,518
Current Portion of Capital Lease	<u>(5,176)</u>
<i>Total Long-Term Liabilities</i>	<u>16,342</u>
<i>Total Liabilities</i>	<u>178,390</u>
<b>Net Assets</b>	
Invested in Capital Assets - net of debt	8,565,856
Restricted for Construction	122,686
Restricted for Capital Improvements	10,000
Restricted for Escrow Payment	267
Unrestricted	<u>21,720</u>
<i>Total Net Assets</i>	<u>\$ 8,720,529</u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit G*

*Proprietary Fund  
Statement of Revenue, Expenses  
and Changes in Net Assets  
For the Year Ended December 31, 2004*

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	<u>Water System</u>
<i>Operating Revenues</i>	
Water Sales	\$ 467,018
Other Charges and Fees	<u>96,461</u>
<i>Total Operating Revenues</i>	563,479
<i>Operating Expenses</i>	
Operating Supplies	18,636
Office Supplies	3,198
Contractual Services	
Administration & Engineering	222,814
System Operation	42,181
Professional Fees	11,661
Communications	6,250
Vehicle	5,937
Printing & Publishing	1,172
Dues & Fees	3,340
Software Support	2,174
Insurance	9,268
Utilities	42,916
Repairs & Maintenance	90,355
Rentals	8,398
Depreciation	400,928
Other	<u>-</u>
<i>Total Operating Expenses</i>	<u>869,228</u>
<i>Operating Income (Loss)</i>	(305,749)
<i>Non-Operating Revenues (Expenses)</i>	
Interest Earned	-
Interest Expense	<u>(1,065)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(1,065)</u>
<i>Income (Loss) before Capital Contributions and Transfers</i>	(306,814)
Capital Contributions	<u>335,053</u>
<i>Change in Net Assets</i>	28,239
Net Assets - Beginning of Year	<u>8,692,290</u>
Net Assets - End of Year	<u><u>\$ 8,720,529</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Mancelona Area Water and Sewer Authority***Exhibit H**Proprietary Fund**Statement of Cash Flows**For the Year Ended December 31, 2004*

	<u>Water System</u>
<b><i>Cash Flows From Operating Activities</i></b>	
Operating income (loss)	\$ (305,749)
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
Depreciation	400,928
<i>(Increase) Decrease in Current Assets</i>	
Accounts Receivable	(411)
Due from State	113,733
Due from Other Units	3,962
Due from Other Funds	-
<i>Increase (Decrease) in Current Liabilities</i>	
Accounts Payable	2,083
Escrow Payable	(2,737)
<i>Net Cash Flows From Operating Activities</i>	211,809
<b><i>Cash Flows from Capital and Financing Activities</i></b>	
Capital Contributions - MDEQ	335,053
Proceeds from Capital Lease	26,896
Capital Lease Payments	(5,378)
Interest Expense	(1,065)
<i>Net Cash Flows From Capital and Related Financing Activities</i>	355,506
<b><i>Cash Flows From Investing Activities</i></b>	
Water System Acquisitions and/or Construction Costs	(335,053)
Purchase of New Truck	(26,896)
Interest Income	-
<i>Net Cash Flows From Investing Activities</i>	(361,949)
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	205,366
<i>Cash and Cash Equivalents at Beginning of Year</i>	51,165
<i>End of Year</i>	\$ 256,531
<i>Cash paid for interest during the current year</i>	\$ 1,065

*The Notes to Financial Statements are an integral part of this statement*

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2004

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mancelona Area Water & Sewer Authority have been prepared in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Effective January 1, 2004, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in these statements include the following:

- Financial statements using the accrual basis of accounting for all the Village's activities as adjusted for capital assets and depreciation.
- A change in fund financial statements to focus on major funds.

#### A. Reporting Entity

A Board of Trustees consisting of members from Custer and Mancelona Townships organized the Mancelona Area Water Authority in March of 2000. In 2001, the Village of Mancelona joined the authority. Each local governmental unit member has representation within the Authority. The mission of the Mancelona Area Water and Sewer Authority (MAWSA) is to provide safe water in order to protect public health and the local economy in response to local groundwater contamination.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, no required organizations have been omitted from these financial statements.

#### B. Government –Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2004

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The local unit reports the following major governmental fund:

*Debt Service Fund* - Debt Service Funds account for resources set aside to pay interest and principal on long-term debt.

The local unit reports the following major proprietary fund:

*Enterprise Funds* - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Water Fund is operated with the intention that the cost of providing water services to the public will be financed or recovered primarily through charges to users.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2004

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are changes between the government's sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tape fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### D. Assets, Liabilities, and Net Assets or Equity

*Bank Deposits and Investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*Accounts Receivable* - Accounts Receivable are recorded in the Water Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer. The County purchases any amounts not collected by the Authority.

*Capital Assets* – capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2004

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Depreciation and amortization are computed by the straight-line method. The Authority records depreciation and amortization in its Water Fund. Estimated useful lives for depreciable and amortizable assets are as follows:

Water System	25 years
Bond Issue Costs	20 years
Start up Costs	5 years

In the Water Fund, depreciation charged to expense was \$400,928 for the year ended December 31, 2004.

*Long-Term Obligations* - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

*Fund Equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### A. Budgets

A budget is adopted for operational purposes of the Water Fund on an annual basis. However, budgets are not required for either Debt Service or Proprietary Funds. Consequently, no budgetary information is provided with these financial statements.

#### B. Statement of Cash Flows

For purposes of the Statement of Cash Flows, The Authority considers cash, bank deposits, certificates of deposit, and investments with an original or purchased maturity of 90 days or less to be cash equivalents.

#### C. Investment Policy

P.A. 196 of 1997 requires all local units to adopt a written investment policy and to provide a copy of this policy to all financial institutions used by the unit. The Authority does not have an investment policy.

# Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2004

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## NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

### A. Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, and Public Act 196 of 1997 states the Authority, by resolution, may authorize the Treasurer to invest surplus funds as follows:

1. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
4. In United States government or federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

### B. Types of Deposits and Investments

The Authority maintains all its surplus funds with local banks in the form of savings/checking accounts and certificates of deposit. Interpreting FDIC Reg. 330-8 regarding the \$100,000 insurance limit to apply separately to the demand and time deposits of a public unit, GASB statement 3 risk disclosures for the Authority are as follows:

Types of Deposits and Investments:

<u>Deposit</u>	<u>Amount</u>
FDIC Insured	\$ 103,004
Uninsured	<u>6,095</u>
Total Deposits	<u>\$ 109,099</u>

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2004

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### NOTE 4 - SUMMARY OF LONG-TERM ASSETS

Long-Term Assets in the Water Fund as of December 31, 2004, are summarized as follows:

	<b><i>Beginning Balance</i></b>	<b><i>Additions</i></b>	<b><i>Deletions</i></b>	<b><i>Ending Balance</i></b>
Custer TWP/Cedar River System	\$ 3,259,810	\$ -	\$ -	\$ 3,259,810
MDEQ System	4,851,355	335,053	-	5,186,408
Mancelona TWP System	110,710	-	-	110,710
Village of Mancelona System	735,317	-	-	735,317
General Equipment	-	28,696	-	28,696
Start Up Costs	133,902	-	-	133,902
Bond Issue Costs	<u>75,597</u>	<u>-</u>	<u>-</u>	<u>75,597</u>
Total Cost	9,166,691	361,949	-	9,528,640
Accumulated Depreciation/Amortization	<u>(561,856)</u>	<u>(400,929)</u>	<u>-</u>	<u>(962,785)</u>
Net Book Value	<u>\$ 8,604,835</u>	<u>\$ (38,980)</u>	<u>\$ -</u>	<u>\$ 8,556,855</u>

### NOTE 5 – SPECIAL ASSESSMENT RECEIVABLE/DEFERRED INCOME

The Authority issued \$2,770,000 of "Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002" in April 2002 to pay for the acquisition and construction costs of the water system. A special assessment was levied on properties in Custer and Kearny Townships to service the bonds as they come due.

In accordance with GASB Statement #6, the Authority has recorded the special assessment receivable, principal portion and has deferred the portion that is not available at December 31, 2004 in the amounts of \$2,493,207 and \$2,354,694 respectively.

Interest included on the 2004 tax roll was calculated using an estimated variable interest rate of 4.875%. The interest portion of the special assessment receivable at December 31, 2004 is \$121,544.

# Mancelona Area Water and Sewer Authority

## Notes to Financial Statements

December 31, 2004

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### NOTE 5 – SPECIAL ASSESSMENT RECEIVABLE/DEFERRED INCOME - continued

Special assessment revenue recognized in 2004 includes principal and interest equal to the levy on the 2004 tax roll, which totaled \$260,507. The special assessments will be levied and recorded over a twenty year period according to the following as of December 31:

	<u>Principal</u>
2004	\$ 138,513
2005	138,511
2006	138,511
2007	138,511
2008	138,511
2009-2013	692,555
2014-2018	692,555
2019-2021	<u>415,540</u>
	<u>\$ 2,493,207</u>

The schedule above does not include interest that would be collected with the principal because the interest rate is variable and does not allow accurate measurement.

### NOTE 6 - LONG-TERM DEBT

The following is a summary of transactions that occurred in bonds payable during the year ended December 31, 2004:

Beginning Balance	\$ 2,670,000
New Borrowing	-
Principal Paid	<u>105,000</u>
Ending Balance	<u>\$ 2,565,000</u>

#### Revenue Bonds

As part of the acquisition of the water system, the Authority assumed debt from the Village of Mancelona in the amount of \$45,000. The debt consisted of revenue bonds maturing through the year 2005. The bonds were retired in an indirect manner referred to as in-substance defeasance. The Authority deposited funds sufficient to extinguish the debt with an escrow agent. The US Treasury securities purchased with the funds are essentially risk free and mature at times and amounts sufficient to retire the debt. At December 31, 2004, the escrow balance was \$15,229.

#### Special Assessment Bonds

In April 2002, the Authority issued \$2,770,000 of "Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002" to pay for the acquisition and construction costs of the water systems.

# Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2004

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## NOTE 6 - LONG-TERM DEBT - continued

Bond documents specify the debt service requirements are to be met using proceeds from a special assessment described in Note 6. Special assessment proceeds and debt service payments are recorded in the Debt Service Fund. The outstanding debt is recorded in the General Long-Term Debt group. Even though the bonds are titled revenue bonds, the revenue generated by the water systems is to be used only in the event of default. It is anticipated the special assessments will cover the debt requirements.

The bonds are due in nineteen annual principal installments ranging from \$100,000 to \$200,000 beginning April 1, 2003. The bonds bear a variable interest rate with an initial rate of 1.55%.

Amount required to amortize Special Assessment Bonds at December 31, 2004:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 110,000	\$ 95,967	\$ 205,967
2006	115,000	92,063	207,063
2007	120,000	87,750	207,750
2008	125,000	83,441	208,441
2009	130,000	78,382	208,382
2010-14	715,000	316,887	1,031,887
2015-19	860,000	172,327	1,032,327
2020-21	<u>390,000</u>	<u>22,141</u>	<u>412,141</u>
	<u>\$ 2,565,000</u>	<u>\$ 948,958</u>	<u>\$ 3,513,958</u>

## NOTE 7 – CONTRIBUTED CAPITAL

The following is a summary of contributed capital toward the water system of the Authority at December 31, 2004:

Michigan Department of Environmental Quality	\$ 6,502,599
Custer & Kearny Townships	2,770,000
Mancelona Township	217,556
Village of Mancelona	<u>155,748</u>
Total Contributed Capital	<u>\$ 9,645,903</u>

## NOTE 8 - SEGMENT INFORMATION - ENTERPRISE FUND

	<u>Water Fund</u>
Operating Revenue	\$ 563,479
Depreciation	400,928
Operating Income (Loss)	(305,749)
Operating Transfers - In	-
- Out	-

# Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2004

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## NOTE 8 - SEGMENT INFORMATION - ENTERPRISE FUND - continued

	<u>Water Fund</u>
Tax Revenues	-
Net Income (Loss)	(306,814)
Current Capital Contributed	335,053
Long-Term Assets	
- Additions	361,949
- Deletions	-
Net Working Capital	171,015
Total Assets	8,898,919
Total Equity	8,720,529

## NOTE 9 - LEASING ARRANGEMENTS

The Authority subleases its office space from Northwestern Michigan Community Health Agency. On January 1, 2004 the lease was renegotiated. The term is for 60 months with a beginning monthly payment of \$452.31 and an option for 3 five-year renewals. The lease can be adjusted annually for changes in prorated occupancy costs. Lease expense, which also includes prorated occupancy costs, was \$8,398 for the current year ended December 31.

## NOTE 10 - RISK MANAGEMENT

The Authority pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Authority carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTE 11 - RELATED PARTY TRANSACTIONS

The Authority contracts with the following entities for operational or construction purposes. The entities perform administrative and/or management services for the Authority. The following is a summary of transactions with the related parties as of and for the year ended December 31, 2004:

	<u>Costs Incurred</u>	<u>Amount Payable</u>
Gourdie/Fraser & Associates	\$ 196,534	\$ 29,056
Community Resource Development, Inc.	<u>60,042</u>	<u>5,721</u>
Total	<u>\$ 256,576</u>	<u>\$ 34,777</u>

The Authority's Treasurer is the branch manager and assistant vice president for the Mancelona National City Bank. The Authority maintains its bank accounts with National City Bank and the bank also services the debt of the Authority.

OTHER INFORMATION (UNAUDITED)

# **Mancelona Area Water and Sewer Authority**

## *Comments and Recommendations*

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We have audited the combined financial statements of the Mancelona Area Water & Sewer Authority for the year ended December 31, 2004 and have issued our report thereon dated May 17, 2005. As part of our examination, we considered the Authority's internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

### *Separation of Duties*

The office administrator performs duties such as billings, cash receipts and deposits and bank reconciliations that would normally be done by different individuals. We recognize the Authority is a small organization and it is difficult to separate these duties. We noted an attempt to separate some duties throughout the year and the office management should be commended for their efforts. However, we recommend someone other than the administrator consistently perform bank reconciliation and cross reference bank deposits and cash reconciliation with receipt tickets.

### *Repairs and Replacement Reserve*

The National City Bank loan agreement calls for a reserve for debt service repairs and replacement of at least 50% of the prior year's expense. The Authority did establish a replacement reserve account in the Water System operating fund, however it does not appear to meet the 50% stipulation. We do note that cash reserves in the Debt Service Fund and its fund balance more than exceeds 50% of the expected debt service expenses.

### *Investment Policy*

The Michigan legislature passed Public Act 196 of 1997 that expanded the list of authorized investments and requires all local governmental units to adopt an investment policy. This law requires the Authority to adopt a comprehensive written investment policy. A copy of this policy must be provided to all financial institutions used by the Authority. The Authority has yet to adopt this required policy.

### *Transaction Recording*

All transactions in the Debt Service Fund were not recorded when we arrived for fieldwork. Additionally, all transactions were not recorded in the Water System Fund's MDEQ account. It is imperative that all transactions are recorded in a timely manner for the Board to receive accurate reports. We strongly recommend current information be provided to the office management in a timely manner and that information be recorded and reconciled on a monthly basis.

### *Closing Comments*

We will be happy to discuss any of these recommendations with you and assist you in their implementation. As a matter of course, we will forward the necessary copies of this audit report to the State Treasury Department. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise on these financial statements or the conduct of our audit, please call upon us.